

Message Text

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OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 L-03 H-02 MMO-01 AGRE-00 OES-09
DOE-15 SOE-02 INT-05 SMS-01 /167 W
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R 141043Z SEP 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 7337
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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USMTN

PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

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REF: PARIS 29040, AUGUST 30, 1978

1. SUMMARY

WITH THE "RENTREE" IN FULL SWING, THE FIRST TWO WEEKS OF
SEPTEMBER HAVE BEEN MARKED BY SOME MAJOR GOVERNMENT
POLICY STATEMENTS, INCLUDING THE 1979 BUDGET (PARIS

29897). THE CURRENT ECONOMIC POLICY WILL BE BASICALLY CONTINUED WITH NO LARGE STIMULUS TO THE ECONOMY ALTHOUGH SOME MEASURES TO AID EMPLOYMENT, EXPORTS, AND ENERGY CONSERVATION HAVE BEEN BEGUN OR RENEWED. THE GOF IS REBOUNDED FROM THE UNEXPECTEDLY HIGH WAGE INCREASE PER HOUR DURING THE SECOND QUARTER BY WARNING THE PRIVATE SECTOR THAT CREDIT SANCTIONS WILL BE APPLIED AGAINST FIRMS WITH EXCESSIVE WAGE INCREASES AND THAT THE FREEING OF PRICES IN THE DISTRIBUTION AND SERVICE SECTORS WILL BE MUCH SLOWER THAN OCCURRED IN INDUSTRY. END SUMMARY

2. GOF ANNOUNCES MEASURES TO AID THE PRIVATE SECTOR

THE GOF HAS ANNOUNCED THE FOLLOWING MEASURES TO AID THE PRIVATE SECTOR IN INCREASING EMPLOYMENT, EXPANDING EXPORTS AND CONSERVING ENERGY.

(A) SPECIAL FUND FOR INDUSTRIAL ADAPTATION: THIS NEW FUND HAS BEEN SET UP TO FACILITATE JOB CREATION IN THOSE AREAS HARDEST HIT BY THE CURRENT ECONOMIC SITUATION. AID WILL TAKE THE FORM OF SUBSIDIES OR LOANS FROM THE FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT (FDES). IT WILL BE DIRECTED TO FIRMS CREATING NEW JOBS BY OPENING A NEW FIRM OR A BRANCH OF AN EXISTING FIRM IN THE AFFECTED AREAS OR BY EXPANDING UNCLASSIFIED

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OR DIVERSIFYING EXISTING FIRMS. ONE BILLION FRANCS HAS BEEN ALLOCATED TO THIS FUND FOR THIS YEAR (FF 350 MILLION FROM THE BUDGET AND THE REMAINDER FROM THE FDES), AND THE TOTAL CONTRIBUTION WILL BE INCREASED TO FF 3 BILLION IN 1979 AND 1980. INITIALLY, FUNDS WILL BE DIRECTED TO THOSE REGIONS IN WHICH THE STEEL, SHIPBUILDING, AND TEXTILE INDUSTRIES ARE CONCENTRATED.

(B) EXPORTS: FF 3 BILLION IN LOANS WILL BE GRANTED DURING THE NEXT TWELVE MONTHS TO FIRMS FOR THE PURPOSE OF

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OES-09 DOE-15 SOE-02 INT-05 SMS-01 /169 W
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R 141043Z SEP 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 7338
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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INCREASING THEIR EXPORT CAPACITY.

(C) INVESTMENTS TO INCREASE EMPLOYMENT: A
COMPLEMENTARY MEASURE TO AID EMPLOYMENT IS THE ALLOCA-
TION OF FF 2.5 BILLION FOR LONG-TERM LOANS TO FIRMS
UNDERTAKING INVESTMENTS WHICH WILL CREATE NEWJOBS.
THESE LOANS WILL BE DISTRIBUTED BY THE CREDIT NATIONAL,
THE CREDIT HOTELIER, AND THE COMPANIES FOR REGIONAL
DEVELOPMENT. THE FDES WILL ALSO RECEIVE FOR THIS
PURPOSE FF 500 MILLION TO EXTEND TO HIGHER CREDIT
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RISK FIRMS.

(D) ENERGY: THE AID TO INDUSTRY FOR THE CONSERVATION
OF ENERGY WILL BE DOUBLED IN 1979 TO FF 410 MILLION.

(E) CRAFTS: FF 2.5 BILLION WILL BE MADE AVAILABLE TO
CRAFTSMEN TO AID THEM TO SET UP SHOP.

3. BARRE RENEWS HIS WARNING ON EXCESS WAGE INCREASES

PM BARRE HAS REITERATED HIS WARNING (PARIS 29952) THAT THE GOF IS READY TO UTILIZE CREDIT POLICY TO AVOID EXCESSIVE WAGE INCREASES. AT THE EUROPEAN FAIR IN STRASBOURG, HE WARNED COMPANY HEADS THAT "IF WAGES BEGIN AGAIN TO INCREASE TOO RAPIDLY, THE GOVERNMENT WILL TAKE EVERY MEANS IN ITS POWER TO AVOID A NEW DETERIORATION OF THE ECONOMIC SITUATION IN OUR COUNTRY. IT WILL NOT PRACTICE A POLICY OF SETTING WAGES, IT WILL NOT RETURN TO PRICE CONTROLS, BUT IT WILL UTILIZE CREDIT POLICY AND DEVELOP DOMESTIC AND INTERNATIONAL COMPETITION IN ORDER TO CONTAIN AND REDUCE THE EXCESSES WHICH MAY BE PRODUCED."

4. COMPLETE ABOLITION OF PRICE CONTROL IN COMMERCE AND SERVICE SECTORS WILL PROBABLY BE DRAWN OUT

ECONOMIC MINISTER MONORY, IN A LETTER TO THE PRESIDENT OF THE ASSOCIATION OF SMALL AND MEDIUM SIZE FIRMS, HAS CAUTIONED BUSINESSMEN TO EXPECT A SLOWER LIBERATION OF PRICES FOR COMMERCE AND SERVICES THAN OCCURRED FOR INDUSTRIAL PRICES. HE SPECIFIED CERTAIN CONDITIONS NECESSARY FOR THE RETURN TO TOTAL PRICE LIBERTY INCLUDING THE NECESSITY TO ASSURE SECTOR BY SECTOR

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THAT THERE ARE NO MAJOR OBSTACLES TO COMPETITION AND THE PROVISION OF GREATER INFORMATION TO THE CONSUMER.

5. GOF SETS CONDITIONS ON ITS AID TO MANUFACTURE

THE GOF HAS FINALLY AGREED TO RELEASE FF 8 MILLION OF AN EXPECTED FF 20 MILLION IN LOANS TO MANUFACTURE TO HELP FINANCE ITS RENOVATION PLAN. AS PART OF ITS POLICY NOT TO BAIL OUT AILING INDUSTRIES, THE GOF HAS SET A RIGID SET OF CONDITIONS ON MANUFACTURE FOR THESE FUNDS INCLUDING THE REQUIREMENT TO LAY OFF PART OF ITS LABOR FORCE.

6. MODERATE GROWTH OF BANK CREDIT WILL PROVIDE ADDITIONAL LEEWAY FOR FINANCING OF LARGE 1978 DEFICIT

IN HIS BUDGET PRESENTATION TO THE FINANCE COMMISSION AT THE NATIONAL ASSEMBLY, BUDGET MINISTER PAPON SPECIFIED THAT THE 1978 GOF'S DEFICIT WILL FALL BETWEEN FF25--27 BILLION. THIS YEAR THERE EXISTS SOME LEEWAY FOR FINANCING THIS DEFICIT WITHOUT MONEY CREATION SINCE THE VOLUME OF BANK CREDIT HAS FALLEN BELOW THE MAXIMUM PERMITTED BY THE CONTROLS ON CREDIT. HOWEVER,

M. PAPON COMMENTED THAT THIS NON-INFLATIONARY MARGIN
COULD CONTRACT FOR THE FINANCING OF THE 1979 DEFICIT,
DEPENDING ON THE DEVELOPMENT OF INVESTMENT NEXT YEAR.

7. UNADJUSTED MONEY SUPPLY DECLINED IN MAY

AFTER THE HIGH RATE OF GROWTH REGISTERED IN APRIL,
THE UNADJUSTED MONEY SUPPLY (M2) DECLINED BY 0.6
PERCENT IN MAY TO FF 1,004.5 BILLION. M2 INCREASED
BY 12.9 PERCENT DURING THE 12 MONTH PERIOD ENDING
IN MAY. THE DECLINE WAS DUE TO M1, WHICH FELL BY
2.9 PERCENT FROM APRIL TO FF 497.2 BILLION. QUASI-
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MONEY INCREASED BY 1.7 PERCENT TO FF 507.3 BILLION.

NET FOREIGN EXCHANGE RESERVES STOOD AT FF 48.8 BILLION,
A 6.5 PERCENT INCREASE FOR THE MONTH. ALTHOUGH CLAIMS
ON THE PRIVATE SECTOR DECLINED BY 1.4 PERCENT TO

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FF 890.3 BILLION, THE SEASONAL DECLINE IN CLAIMS ON THE PUBLIC SECTOR WAS MUCH LESS PRONOUNCED THAN USUAL (-4.0 PERCENT TO FF 127.2) SINCE THERE WERE SUBSTANTIAL NEEDS FOR FINANCING BY THE GOVERNMENT.

ON A SEASONALLY ADJUSTED BASIS, M2 INCREASED BY 0.3 PERCENT IN MAY. M1 DECLINED BY 2.1 PERCENT, DUE PRIMARILY TO THE GOF'S BOND ISSUE ON MAY 22. QUASI-MONEY INCREASED BY 2.6 PERCENT.

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8. DAY-TO-DAY RATE NOT EXPECTED TO FALL SOON BELOW 7 PERCENT

ECONOMIC MINISTER MONORY HAS CLEARLY STATED THAT A FALL IN THE DAY-TO-DAY MONEY MARKET RATE BELOW 7 PERCENT SHOULD NOT BE EXPECTED IN THE NEAR FUTURE. MONEY MARKET LIQUIDITY TIGHTENED SLIGHTLY DURING THE REPORTING PERIOD DUE TO CASH DRAWINGS AND TREASURY OPERATIONS. THE DAY-TO-DAY RATE ROSE TO 7-1/2 PERCENT ON SEPTEMBER 5 AND 6 BUT FELL TO 7-3/8 PERCENT WHEN THE BOF INJECTED FF 3.9 BILLION OF LIQUIDITY INTO THE MARKET AT THE END OF LAST WEEK.

9. REOPENING OF EUROFRANC BOND MARKET IS UNDER DISCUSSION

THE QUESTION OF WHETHER TO REOPEN THE PRIMARY FRENCH FRANC EUROBOND MARKET, CLOSED FOR OVER TWO YEARS, IS CURRENTLY UNDER DISCUSSION IN THE FRENCH TREASURY. NO DECISION IS EXPECTED BEFORE THE END OF THIS WEEK. ACCORDING TO PRESS REPORTS, IF THE GO-AHEAD SIGNAL IS GIVEN, THE FIRST BOND ISSUE WILL PROBABLY BE MADE BY THE EUROPEAN INVESTMENT BANK FOR A FF 200 MILLION ISSUE WITH A 10 PERCENT COUPON AND 12 YEAR MATURITY.

10. MINIMUM WAGE INCREASED

THE MINIMUM HOURLY WAGE WAS INCREASED ON SEPTEMBER 1 TO

FF 11.07, AN INCREASE OF 2.0 PERCENT. THIS IS
EQUIVALENT TO FF 1,925.7 PER MONTH FOR A 40 HOUR WORK
WEEK. THE SMIC HAS BEEN INCREASED BY 15.5 PERCENT IN
THE PAST 12 MONTHS AND BY 5.7 PERCENT IN PURCHASING
POWER.

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OTHER REPORTS SUBMITTED DURING REPORTING PERIOD:

TELEGRAMS

29952 PM BARRE THREATENS SANCTIONS AGAINST FIRMS
WITH EXCESSIVE WAGE INCREASES

29897 1979 GOF BUDGET

29530 FORECAST OF THE FRENCH ECONOMY 1978 AND 1979

29404 PRIME MINISTER BARRE'S INTERVIEW ON ECONOMIC
ISSUES

GAMMON

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